

June 18, 2010

A MESSAGE TO OUR INVESTORS FROM THE CHIEF OPERATING OFFICER OF THE CITY OF SAN DIEGO

On June 8, 2010, a San Diego County civil grand jury released a report on the City's fiscal condition which made a number of recommendations, including that the Mayor and City Council convene a panel of experts to evaluate the legal and financial ramifications of the City declaring bankruptcy. On June 16, 2010, a commentary was posted on Bloomberg with the caption "San Diego May Use Bankruptcy to Roll Back Benefits." The commentary carelessly confuses the grand jury's recommendations with City policy and, in uncritically restating many of the irresponsible conclusions and recommendations of the grand jury report, seeks to create the impression that the City is considering filing for bankruptcy.

The current management of the City has never considered filing for bankruptcy. Neither the Mayor of San Diego nor the City Attorney believes that filing for bankruptcy is necessary, appropriate or even desirable. I cannot state this more strongly.

Many may not be aware of the role and methods of civil grand juries in California. They are composed of average citizens offering opinions on matters they may or may not understand or have adequately researched. In this instance, the grand jury neither sought nor received input from senior City management, financial or legal officials and their report reflects that failure.

The City, as required, will respond to the grand jury recommendations by September 6, 2010; however, it is important for the investor community to know that the City is not contemplating in any way filing for bankruptcy.

In San Diego, there is a small faction who argue that the City could reduce the vested pension benefits of its employees through the use of bankruptcy. To the best of my knowledge, a public agency has never done that through bankruptcy proceedings. Our City Attorney has opined publicly that it would be an extremely expensive venture with very slim likelihood of success and that the City has available other more reliable tools to address its fiscal challenges.

The City of San Diego faces the same fiscal challenges as virtually every other municipality throughout the country in trying to balance rising labor costs against declining revenues. The City reacted early and aggressively to balance its fiscal year 2010 and fiscal year 2011 budgets. Prior to the immediate crisis, the City created a two-tier pension system for non-safety employees who are hired after July 1, 2009 and for sworn police personnel for officers hired after July 1, 2009. The City will begin negotiations with its firefighters union later this calendar year and will seek to modify its pension benefits as well. These steps not only create a disincentive for employees to retire early but will ultimately save the City millions of dollars annually. The City will also begin meeting with all of its labor groups to renegotiate retiree health care benefit in the fall of this year.

These are just a few examples of how the City has been proactively addressing its cost structure in order to protect City services. The City is projecting a General Fund reserve balance of over \$75 million or 7% as of June 30, 2010. This is up from approximately \$23 million in fiscal year 2006.

It is unfortunate that the grand jury would issue such an irresponsible report, especially without consulting the very City officials that could provide much needed clarity and context to the issue. In addition, the Bloomberg reporter never once attempted to contact myself or the City's Chief Financial Officer for comment. This is very irresponsible journalism on such a critical topic.

The City is facing challenges in uncertain times but has taken and will continue to take the critical steps necessary to meet those challenges. Bankruptcy is not an option. The City is actively in the bond markets, continues to be a model issuer with rigorous disclosure controls and procedures and will strive to take all actions necessary to maintain investment community's continued confidence in San Diego as a strong investment/credit.



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